GOVERNANCE AND AUDIT COMMITTEE
22 MARCH 2011

STATEMENT OF THE ACCOUNTS 2010/11 - REVISED ACCOUNTING POLICIES
Borough Treasurer

1 PURPOSE OF DECISION

1.1 Councils are required to prepare their 2010/11 accounts based on International Financial Reporting Standards (IFRS), as interpreted for local authorities in the Code of Practice on Local Authority Accounting 2010/11 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Previously the accounts were based on UK Generally Accepted Accounting Practice (GAAP) as interpreted in the Statement of Recommended Practice (the SORP).

1.2 The transition from accounts based on the SORP to those based on the Code has required significant changes to the Council's Accounting Policies which are presented to the Committee in this report for approval.

2 RECOMMENDATION

That the Committee:

2.1 Approves the revised Accounting Policies attached at Annexe A.

3 REASONS FOR RECOMMENDATIONS

There have been significant changes to the Accounting Policies that will be applied to the production of the Statement of the Accounts for 2010/11. These therefore require approval by the Council (or Committee of the Council) before the production of the accounts commences.

4 ALTERNATIVE OPTIONS CONSIDERED

Not applicable.

5 SUPPORTING INFORMATION

Reasons for the change

5.1 The Chancellor's 2007 Budget announcement introduced IFRS based financial reporting for the public sector from 2008/09. This was updated in the 2008 Budget Report and as a result Central Government and Health were required to adopt IFRS for the production of their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from 2010/11 (with comparatives for 2009/10).

5.2 The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

5.3 The private sector has been using IFRS since 2005 and the Government decided that the annual financial statements of Government Departments and other public sector bodies will in future be prepared using IFRS, adapted as necessary, for the public sector.

Main changes to the Accounting Policies

5.4 The first time adoption of IFRS has resulted in a significant change in accounting policies in some key areas. The revised accounting policies are attached as Annexe A and the main changes are summarised below.

Prior Period Adjustments

5.5 Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Previously only fundamental errors (one that is of such significance as to destroy the validity of the financial statements) required adjustment. This will make it much more likely that prior period adjustments will be required. Where an adjustment is required, three balance sheets will now need to be included in the accounts. For example, for 2010/11 balances sheets will be required for 2008/09, 2009/10 and 2010/11.

Investment Property

5.6 Investment property is now specifically defined to refer to land and buildings held solely to earn rentals and/or for capital appreciation. Investment properties will also, in future, be shown as a separate category of asset on the Balance Sheet. Any changes to the value of investment properties will also need to be recognised through the Comprehensive Income and Expenditure Statement rather than initially through the Revaluation Reserve.

Non-current Assets Held For Sale

5.7 A non-current asset held for sale is an asset where there is an expectation that the amount included in the Balance Sheet will be recovered through a sale transaction within the next 12 months rather than through the continuing use of the asset. Strict criteria apply before an asset can be classified as held for sale and Investment Property are excluded. If the criteria are met, this classification would apply to any land or building asset which was not previously designated an investment property. Under the code non-current assets held for sale are shown separately on the Balance Sheet within current assets.

Lease Classification

5.8 Leases will still need to be classified as either finance leases or operating leases. Previously the lease of land and buildings were considered together for the purposes of the accounts. Under the code, the land and building elements will need to be considered separately for classification. Unless title is expected to pass to the lessee at the end of the lease term, the Council will be treating the lease of land as an operating lease.

5.9 Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. For example, the refuse collection contract is dependant on the use of specific refuse vehicles and due to the nature of the contract a finance lease is deemed to exist.

Cash and Cash Equivalents

5.10 Under the code, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The revised accounting policies define short term as those maturing within 3 months from the date of acquisition. All the Council's investments in Money Market Funds will in future be classified as cash equivalents rather than short term investments in the Balance Sheet.

Employee Benefits

5.11 The Council will need to accrue for annual leave and flexi-time which has been earned by staff at the reporting date but not yet taken.

Grants and Contributions

5.12 In future grants and contributions relating to capital and revenue expenditure will be recognised immediately in the Comprehensive Income and Expenditure Account, except to the extent that the grant or contribution has a condition(s) attached to it that the Council has not satisfied. Previously capital grants and contributions were amortised to the Income and Expenditure Account over the life of the asset that they financed and revenue grants and contributions were matched to the pattern of the associated expenditure.

Componentisation

5.13 The Code places a much greater emphasis on componentisation. Where an asset comprises two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful life. The requirement for componentisation for depreciation purposes is only applicable to enhancement, purchases, or revaluations after 1 April 2010.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

6.1 Nothing to add to the report.

Borough Treasurer

6.2 Comments are contained within the body of the report.

Equalities Impact Assessment

6.3 There are no equalities issues.

Strategic Risk Management Issues

6.4 The revised accounting policies have been subject to a review by District Audit for compliance to the code and no significant issues have been identified to date.

Background Papers

Contact for further information

Alan Nash – 01344 352180
Alan.nash@bracknell-forest.gov.uk

Arthur Parker – 01344 352158
Arthur.parker@bracknell-forest.gov.uk

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